

Message Text

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SUBJECT: EC FINANCE COUNCIL MEETING ON SEPT. 16-- COMMISSION COMMENTS

REFS: A) EC BRUSSELS 7122

B) EC BRUSSELS 7068

1. SUMMARY: COMMENTING ON THE LATEST EC FINANCE COUNCIL MEETING
(REF A), MANY OF OUR EC CONTACTS SEE FOURCADE'S MONETARY INTEGRATION
PROPOSALS AS A SMOKE SCREEN. THOUGH DESIGNED TO DEMONSTRATE PROGRESS,
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THE PROPOSALS LACK BOTH TECHNICAL CLARITY AND SUPPORT FROM MOST OF THE

OTHER MEMBER STATES. EXCEPT FOR THE PROPOSED EUROPEAN BORROWING FOR MEMBER STATES IN FINANCIAL DIFFICULTY, WHICH HAS BEEN UNDER CONSIDERATION FOR SOME TIME, NONE OF FOURCADE'S PROPOSALS IS LIKELY TO BE ACTED ON IN THE FORESEEABLE FUTURE. THE COUNCIL REFERRED THE PROPOSALS TO THE COMMISSION AND RELEVANT COMMITTEES FOR STUDY. PROGRESS, HOWEVER, IS BEING MADE ON (A) THE CREATION OF A MECHANISM TO MAKE A EUROPEAN LONG-TERM BORROWING FROM OIL EXPORTING COUNTRIES; AND (B) CONVERTING THE SHORT-TERM CREDIT TO ITALY TO A MEDIUM-TERM LOAN. END SUMMARY.

2. THE FOLLOWING IS A DISTILLATION OF FOLLOW-UP COMMENTS AND FURTHER INFORMATION WE HAVE RECEIVED FROM COMMISSION AND PERMANENT DELEGATION SOURCES ON THE SEPTEMBER 16 EC FINANCE COUNCIL MEETING.

3. EUROPEAN BORROWING: AS REPORTED IN REF B, THE EC MONETARY COMMITTEE SUBMITTED TO THE COUNCIL A DETAILED REPORT UNANIMOUSLY PROPOSING A FORMULA FOR MEMBER STATE GUARANTEES OF THE PROPOSED DIRECT EC BORROWING FROM OIL EXPORTING COUNTRIES. (COPIES OF THE COMMITTEE'S REPORT ARE BEING POUCHED TO STATE/RPE, OMA; TREASURY AND FED) IN THE COUNCIL, HOWEVER, THE FRG SEEMED TO SEEKING OTHER CONCESSIONS, SUCH AS MODIFICATIONS IN THE CAP, AND REPORTEDLY NOW BORROWING, WANTS A MAXIMUM CEILING FOR ITS LIABILITY, BEFORE AGREEING TO THE FOURCADE PROPOSED THAT THE COMMUNITY USE ITS OWN RESOURCES AS THE GUARANTEE BUT COMMISSION OFFICIALS REAFFIRM THEIR PLANS TO RELY ON MEMBERS' GUARANTEES. OUR SOURCES MAINTAIN THAT THE COUNCIL WILL AGREE ON A BORROWING BY THE END OF THE YEAR, AND ITALY WOULD LIKELY BE THE FIRST RECIPIENT OF A LOAN OF ABOUT 2 BILLION U.A., PERHAPS IN THE FIRST QUARTER OF 1975.

4. SHORT-TERM CREDIT: COMMISSION OFFICIALS TOLD US THAT COUNCIL HAS TACITLY CONCURRED IN CONVERTING THE \$1.9 MILLION SHORT-TERM CREDIT TO ITALY TO A MEDIUM-TERM LOAN AND WILL GIVE FORMAL APPROVAL BEFORE THE CURRENT CREDIT EXPIRES ON DECEMBER 18. OUR SOURCES DID NOT TAKE SERIOUSLY FOURCADE'S PROPOSAL TO INCREASE THE PRESENT SHORT-TERM CREDIT MECHANISM TO 10 BILLION U.S. COMMISSION OFFICIALS BELIEVE THAT MEMBER STATES WANT TO SEE HOW THE FACILITY WORKS BEFORE CONSIDERING ANY AMBITIOUS EXPANSION IN ITS OPERATIONS.

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5. NEW UNIT OF ACCOUNT: MOST COMMISSION OFFICIALS INTERPRET FOURCADE'S PROPOSAL (PARA 4, REF A) AS A BADLY DESIGNED FRENCH EFFORT TO REASSERT A EUROPEAN IDENTITY IN MONETARY AFFAIRS. IT IS NOT TECHNICAALY SOUND BECAUSE OVER HALF OF THE BASKET OF THE NEW U. A. WOULD BE MADE OF WEAK CURRENCIES--BRITISH POUND, 22 PERCENT; FRENCH FRANC, 22 PERCENT; AND THE ITALIAN LIRA, 14.7 PERCENT. CONSEQUENTLY, THIS U.A. WOULD NOT BE ACCEPTABLE AS

A COMMUNITY LOAN UNIT. SECONDLY, THE PROPOSAL AGGRAVATES SENSITIVE POLITICAL PROBLEMS SUCH AS THE UK'S RENEGOTIATION. OFFICIALS SAY THE EC NEEDS A WEIGHTED U.A. WHICH REFLECTS ECONOMIC REALITY BUT THIS RUNS INTO POLITICAL PROBLEMS, E.G., FOURCADE PROPOSED EQUAL WEIGHT FOR THE FRENCH FRANC AND THE D.M.

6. CONCERTED FLOAT: THE COUNCIL WAS GENERALLY NEGATIVE TOWARD FOURCADE'S PROPOSAL TO SET INDIVIDUAL MARGINS FOR THE FLUCTUATION OF EC CURRENCIES WHICH WOULD LOOSELY LINK OTHER EC CURRENCIES TO THE SNAKE. MEMBERS PARTICIPATING IN THE MINI-SNAKE SAID THAT THEY WOULD WELCOME EXPANSION OF THE SNAKE BUT THEY WOULD ACCEPT NO CHANGE IN ITS CURRENT PROCEDURES AND THAT STATES WANTING TO JOIN THE SNAKE WOULD HAVE TO ACCEPT THE DISCIPLINE OF FIXED MARGINS. COMMISSION OFFICIALS DESCRIBED THE PROPOSAL AS "FUSSY" AND LITTLE MORE THAN CURRENT EXCHANGE RATE COORDINATION. SOME SPECULATED THAT THE FRENCH WOULD USE AN EXPECTED NEGATIVE REACTION AS AN EXCUSE NOT TO REJOIN THE SNAKE. ONE OFFICIAL SAW THE PROPOSAL AS HAVING AN ANTI-DOLLAR OBJECTIVE.

7. MONETARY COORDINATION: THE EC CENTRAL BANKERS' COMMITTEE PLANS TO RESPOND TO FOURCADE'S PROPOSAL FOR EXPANDING EC INTERVENTION AND SETTLEMENT METHODS AND FOR IMPROVING EC COORDINATION IN EUROMARKET OPERATIONS. COMMISSION OFFICIALS ARE ENCOURAGED BY FOURCADE'S SUGGESTION FOR PERMANENT CONSULTATIONS AMONG CENTRAL BANKS BUT BELIEVE THE DISCUSSION IN BASEL NEED TO BE CARRIED OUT IN A BROADER FRAMEWORK THAN JUST WITHIN THE EC.

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8. ECONOMIC REVIEW: IN ITS REVIEW OF THE ECONOMIC SITUATION THE COUNCIL RECOMMENDED EQUAL ATTENTION TO THE FIGHT AGAINST INFLATION AND THE AVOIDANCE OF RECESSION. THE COUNCIL PLANS TO TAKE UP ITS DETAILED ECONOMIC REVIEW NEXT MONTH ON THE BASIS OF A 1975 COMMISSION FORECAST WHICH, WE ARE TOLD, PREDICTS AN EC REAL GROWTH OF 3.5 PERCENT COMPARED WITH 2.5 PERCENT IN 1974.

9. COMMENT: MANY EC OFFICIALS WERE DISAPPOINTED OVER THE COUNCIL MEETING. FOURCADE'S INITIATIVE WAS VIEWED AS A SMOKE SCREEN DESIGNED TO GIVE THE IMPRESSION OF STEPS TOWARD MONETARY INTEGRATION BUT, INSTEAD, LIKELY TO CREATE FALSE EXPECTATIONS WITH LITTLE PROSPECT OF ACCEPTANCE. FOURCADE CONCENTRATED SOLELY ON MONETARY ACTIVITIES AND FAILED TO PROPOSE THE PARALLEL ECONOMIC COORDINATION WHICH WOULD BE

NEEDED TO MAKE HIS INITIATIVE EFFECTIVE. HIS PROPOSALS APPEARED HASTILY PREPARED AND TECHNICALLY WEAK, THOUGH SUBSEQUENT DETAILS MAY HELP. HE DID LITTLE TO FURTHER THE SUBSTANTIVE ISSUE OF THE MEETING--THE EUROPEAN BORROWING AND CONVERSION OF THE SHORT-TERM ITALIAN CREDIT. IN FACT, BY ATTEMPTING TO LINK A NEW UNIT OF ACCOUNT TO THE BORROWING, FOURCADE MAY HAVE IMPEDED PROGRESS IN THIS AREA. THE REACTION TO FOURCADE'S STATEMENT WAS NOT ENTIRELY NEGATIVE, HOWEVER. COMMISSION OFFICIALS WELCOMED A MORE ACTIVE FRENCH ROLE IN FINANCE COUNCIL MATTERS AND THOUGHT THIS WOULD SERVE AS A CATALYST.

10. DESPITE THE GENERALLY ADVERSE REACTION TO FOURCADE'S PROPOSALS, ONE SHOULD NOT LOSE SIGHT OF THE COUNCIL'S PERCEPTIBLE SHIFT TOWARD HELPING OUT MEMBER STATES IN BALANCE OF PAYMENTS DIFFICULTIES. BOTH THE MONETARY AND CENTRAL BANKERS' COMMITTEES NOW AGREE ON THE MAJOR ASPECTS OF EXPANDED LENDING TO ITALY. COMMISSION OFFICIALS ARE NOW CONFIDENT THAT THE COUNCIL WILL TAKE FAVORABLE ACTION ON A EUROPEAN BORROWING AND ON CONVERSION OF THE ITALIAN CREDIT TO A MEDIUM-TERM LOAN. END COMMENT. GREENWALD

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